

SPECIAL REPORT
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Let's talk about the F-14.

In recent weeks there have been a number of articles in newspapers and trade publications about the projected "over-run" for future production buys of the F-14. The situation has been likened by some reporters to the controversial C-5A over-run in which the cost of the aircraft practically doubled before any hint of trouble reached the public. These allegations, and the implied prediction of financial problems for the Company, have been a source of much concern to Grummanites.

In the heat of anxiety over the well-being of the Navy and Grumman and its people, it's time to set down the facts of the case, and to do it forthrightly.

Let me make it plain that I share fully your concern. We worked hard to win the F-14 contract. We're in this thing together. We know what the stakes are and what all of us have to do. There's no doubt in my mind that we'll succeed.

Let's also be frank: there are problems. There's the confusing conflict of statements and predictions in the news media. So-called experts have also chipped in with their views. Sometimes they're almost right, sometimes half right, sometimes dead wrong.

All of these -- however uncomfortable for us -- are right and proper in our democratic form of government. I would not want to put a muzzle on any of them. Our strength lies in the free exchange of ideas.

The real point is to put the misinformation and half-truths to rest.

To oversimplify things, the basic difficulties have stemmed from unforeseen inflation, significant declines in the defense and commercial business base (which has the effect of increasing overhead charges), and sharp rises in both material and personnel costs. These are nation-wide, across-the-board problems for all business. We can meet some of those economic forces by making ourselves more efficient and productive. But in a very real sense, we are the victims of social processes beyond the control of our Company or the defense industry.

There are real-life examples of this. As I said several months ago in an issue of Plane News, "For about the past eight years, firms bidding on new Government defense systems ... have had to submit fixed-price bids that, in effect, have forced them to predict years in advance, what research and development (and production) costs ... would be. Sometimes this fixed-price constraint forces a manufacturer to 'guesstimate' the R&D costs of a system that may require an entirely new engineering approach, new materials, new fabrication techniques, new propulsion, and so on, without knowing what will happen to wages and the cost of materials in the future. (The Kennedy Memorial in Washington, D.C., for example, certainly a non-defense project, has risen from an original estimate of \$31 million to more than \$66 million today.)"

So, what seemed to be a reasonable and realistic price when we bid the F-14 contract has for reasons completely beyond our control turned out to be quite unreasonable.

Despite the impact of this inflationary effect, however, we will produce all 38 F-14As now contracted for, and we expect that production to be profitable.

Of course, as we saw inflationary pressures climb during the past few years, we felt it in the interest of all parties, including the Department of Defense and Congress, to inform the Navy of what was happening and the possible consequences. We suggested a restructuring of future contracts. We believe that such reformation is in the best interest of the Government and the citizens as well as Grumman. Only by keeping Grumman in a sound financial condition can we assure the Navy and the Nation that we can continue to deliver EA-6Bs, A-6As, and E-2Cs as well as F-14s -- all of which are vital to the Fleet and national defense.

We don't expect any formidable problems in introducing the F-14 to the Fleet very close to the originally scheduled date.

I should let all of you know, too, that we're going to complete the program at a lower number of manhours than initially proposed. So the program is healthy and we will continue to produce to planned contract schedules.

The effects of that sharp inflationary spiral are known to everyone. Secretary of Defense Melvin Laird spoke of the problem just a few days ago. The Secretary said:

"Within the last five years we have had a cost growth due to inflation alone of over 50 percent." He also mentioned the F-14 as a "detail" in the over-all picture of inflation, and put it into national context by declaring:

"To prevent war during the 1970's, to see that we don't have more Vietnams, to see that we can maintain the generation of peace that the President and this Administration is committed to ... we need increased defense resources to meet this Soviet threat...."

That's why we have the F-14.

